Research Report

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Specialty Chemicals

Key Takeaways from Management Meeting with Fineotex Chemicals Ltd

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Flash Analysis

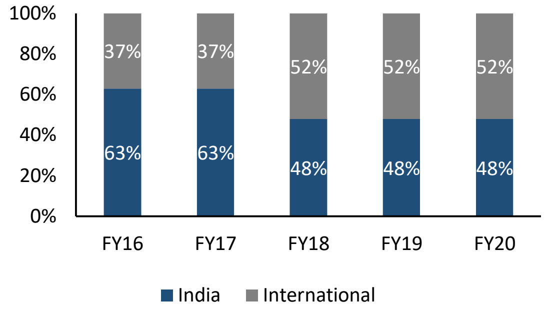
- Fineotex Chemical Limited (FCL, FTXC.IN, NOT RATED) is a leading specialty chemical producer and a solution provider for the textile industry. It derives 52% (FY20) of its sales from international business and has a diversified base of customers (top 10 contributing 33% of sales) and products (top 10 contributing 18% of sales).
- The company is leveraging the brand reputation of BioTex (Malaysian subsidiary) to expand in global markets. Biotex is founded and managed by a German technocrat that leads the R&D initiatives and overall product development.
- Its revenue has grown from Rs1,099m in FY16 to Rs1,963m in FY20 while EBITDA has grown from Rs277m in FY16 to Rs348m in FY20. It is a net cash company with Rs500m (Dec20) cash on books and has historically adopted a disciplined capital allocation approach.
- FCL is associated with most of the large textile players and currently sells 3-4 products to each customer. It targets increasing wallet share by providing 10-12 products which are niche and sustainable solutions and helps save the utility cost of customers. In total, there are about 25 different functions/chemicals across the four major processes of textiles.
- FCL has recently ventured into home care – cleaning and hygiene chemicals along with oil drilling specialties that are synergistic to the existing business. Within home care and hygiene, the company intends to collaborate with leading branded detergent manufacturers for their requirements for polymers.
- The company is setting up a new facility at Ambernath (Maharashtra) at a cost of Rs270m to cater to customers' demand for existing textile specialties and the fast-growing home care and hygiene and drilling specialties business. According to the company presentation, the plant is likely to be commissioned by the end of 1QFY22.
- Textile chemicals contributes approx. 3% cost to the textile manufacturer and products are tailormade to client requirements which ensures stickiness with customers. The company intends to create new markets by offering niche solutions.
- Finishing chemicals is the most profitable business segment (aroma finishes, encapsulated, etc.) and FCL derives a large part of its revenue, i.e 42%, from it. The company intends to focus on increasing the share further with Biotex R&D strength playing an important role. Biotex also possess "bluesign" accreditation that is recognized as a leading certification for sustainability in the global textile industry.
- Recently, FCL has strengthened the board by appointing two directors, Dr. Anand Parwardhan and Dr. Sunil Waghmare who have extensive knowledge in chemistry related domains.
- FCL has also approved an ESOP 2020 scheme with a total of 10mn shares available for grant in one or more tranches.
- The company has completed two buybacks (2017 and 2020) in the last 5 years with promoters not opting to participate.
- For 9MFY21, the revenue has de-grown by 6% YoY to Rs1,435m while EBITDA margins have increased by 190bps to 19.3%. The net profit stood at Rs326m, growing by 60% YoY.

Business Overview

The company manufactures over 400 different products with an established presence across the entire textile value chain ranging from pre-treatment, dyeing, printing and finishing processes. The company offers a wide range of specialty chemicals and enzymes used in many industries. It has manufacturing facilities in Navi Mumbai and Malaysia with a combined production capacity of 43,000 MT/p.a.

The company's business segments include: 1) Textile, 2) Home Care and Hygiene, 3) Drilling, and 4) Other specialties. Textile is a major contributor to the revenue of the company which is around 85% of the total revenue. It has entered into high growth segments such as Home Care and Hygiene and Drilling specialties. Within Home Care, there are significant opportunities to collaborate with leading detergent manufacturers for their requirement of polymers.

Geographic breakdown of Revenue



Source: Company data, HTI Research

Upcoming Facility at Ambernath, Maharashtra

The company will put almost 36,000 tons of capacity into use on a staggered basis at the new facility located at Ambernath over an area of 4 acres, which is expected to be commissioned in Q1 FY22. The proposed deployment is of Rs270m, which would cater to customer demands in existing Textile specialties and the fast-growing Home Care and Hygiene and Drilling specialties business. The capacity expansion has been done in line with visible demand for the detergent polymer, cleaning and hygiene products and textile chemicals. The facility is located in close proximity to key ports (JNPT) near Mumbai providing logistical and cost advantages. FCL is also witnessing a lot of interest from other companies in Europe and USA. So they are expanding and keeping themselves ready for any opportunities.

New production Facility at Ambernath

Source: Company website

Strengthening the Board of Directors

Dr. Anand Patwardhan

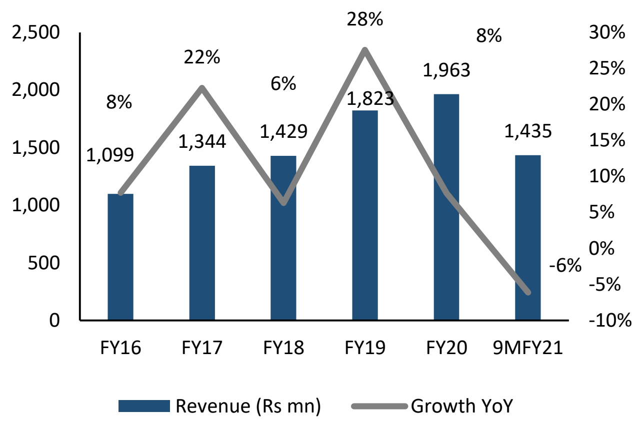
Dr. Anand Patwardhan, aged 57, has a Ph.D (Technology) in Chemical Engineering, from ICT Mumbai University. He has 33 years of experience in industry as well as in academia. He has been working as a Professor of Chemical Engineering in the Chemical Engineering Department, ICT (formerly known as UDCT) Mumbai since December, 2007. He has been a member of various expert panels and guide to several students at the Doctoral Level.

Dr. Sunil Waghmare

Dr. Sunil Waghmare, aged 61, has a Ph.D from the University of Pune & is a Post-Doctoral Researcher at institutions & universities of repute. He has sound knowledge of QA/QC, Analytical Development, safety, legal, and quality compliance. He is a member of various societies connected with Chemistry.

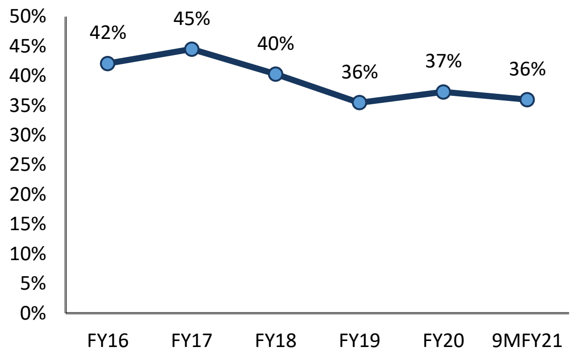
Yearly Performance

Revenue & Growth



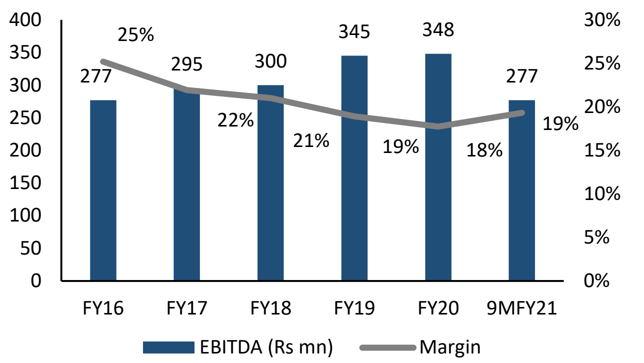
Source: Company data, HTI Research

Gross Margins



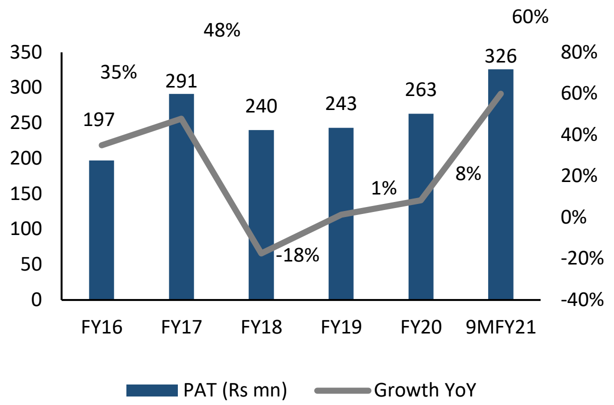
Source: Company data, HTI Research

EBITDA & Margins



Source: Company data, HTI Research

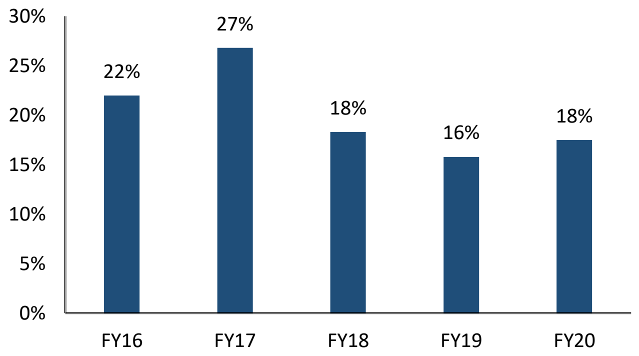
PAT* & Growth



Source: Company data, HTI Research

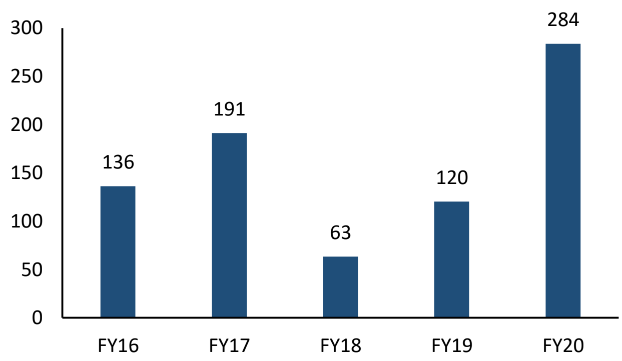
*PAT for FY20 has been adjusted for Loss on measurement of Financial Assets at FVTPL

Return on equity



Source: Company data, HTI Research

Cash Flow from Operations – Post Tax (Rs mn)



Source: Company data, HTI Research

APPENDIX

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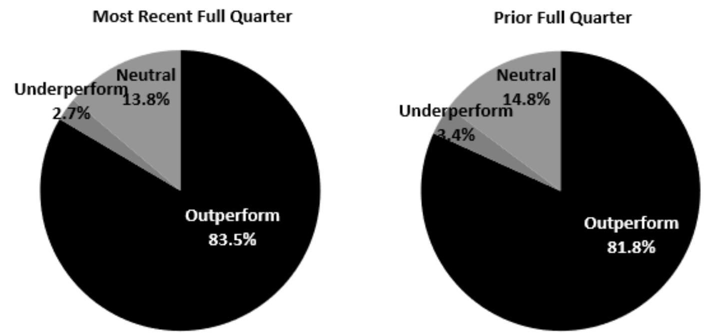

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